"BUILDING ON A SOLID FOUNDATION"

SUBMISSION BY THE

CANADIAN LABOUR CONGRESS

TO THE

COMMISSION OF INQUIRY ON UNEMPLOYMENT INSURANCE

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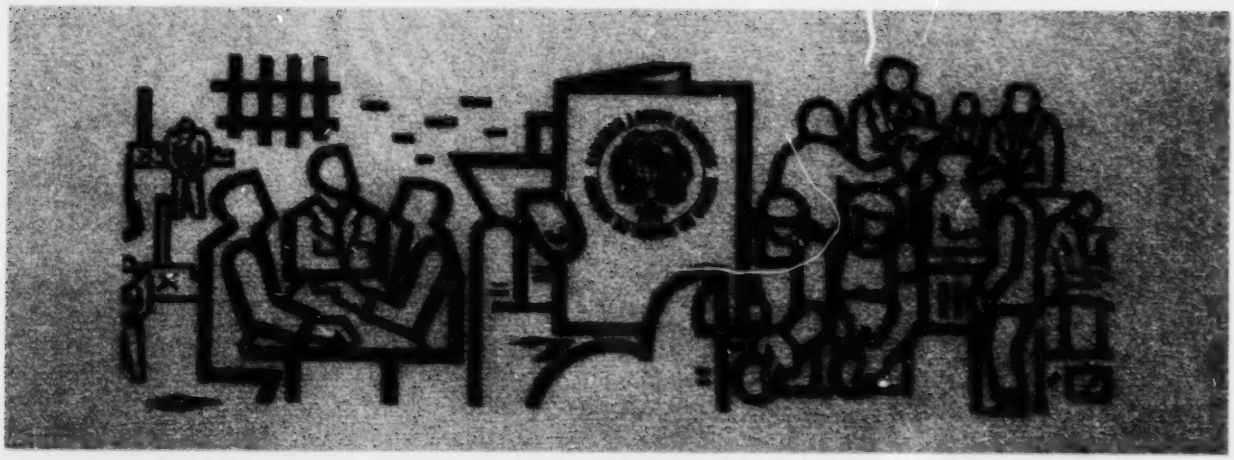

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SECTION I: INTRODUCTION

It is with mixed feelings that the Canadian Labour Congress appears before the Commission of Inquiry on Unemployment Insurance. The Unemployment Insurance (U.I.) program is a vital source of income security for our 2 million members as it is for all Canadian workers. It is a program that is sound in its fundamental characteristics but which could be improved to allow it to serve its fundamental purpose in a stronger, less complicated and more equitable fashion. Moreover, during the current period of prolonged high rates of unemployment, the program has been replacing earnings that are lost due to unemployment for more than 3 million Canadians per year. All of these considerations should make it an unqualified pleasure to offer the Commission our views on how to improve the U.I. program. Certainly we are more resolute than ever in our longstanding commitment to the program.

We would be being less than frank, however, if we did not point out at the outset, that the political background to the creation of the Commission is disturbing. As the Commissioners are aware, the U.I. program was strengthened considerably in 1971. Since that time, the program has been subjected to legislative amendments on five occasions and, with minor exceptions, these post-1971 amendments to the program have weakened the capacity of U.I. to replace earnings lost due to unemployment. Then in November 1984, the current government further weakened the program by declaring that separation payments and pension income would be considered earnings for purposes of determining U.I. benefits. In addition, at the same time that the government announced the changes to the treatment of separation payments and pension income under U.I., the Minister of Finance tabled "A New Direction for Canada" in the House of Commons in which he raised the possibility of substantial cutbacks in the U.I. program. Major cutbacks were also proposed by the Macdonald Royal Commission in its September 1985 Report. Reinforcing this trend to whittle away at the U.I. program have been the persistent demands of business organizations and a faction of tenured economists who have become preoccupied with the notion that unemployment is leisure.

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In short, the political environment out of which the Commission of Inquiry has emerged is ominous.

In raising this issue, we are not, of course, trying to hold the Commission of Inquiry responsible for past events. Nor are we trying to hold the Commission responsible for what the government might decide to do in the future. However, the Commission should be aware that we not only see the U.I. program as fundamentally important to Canadian workers, but we see it as a program that is under severe attack. Both the Commission and the government should be aware of the fact that we will oppose the implementation of recommendations such as those contained in "A New Direction for Canada" and the Macdonald Royal Commission Report. As we recently advised the Minister of Finance, the storm of protest brought on by the changes to the treatment of separation payments and pension income will be rather minor compared to the response that will be directed at major cutbacks in U.I.

In Section 2 of this submission we will discuss some of the substantive challenges to the U.I. program in recent years, and we will also identify some of the complementary social and labour market programs that are necessary to address problems that U.I. cannot handle on its own. In Section 3, we will propose improvements to the U.I. program. But, before turning to these issues, there are some preliminary points we wish to make in order to set the stage for what follows.

In our opening remarks, we have already noted that more than 3 million Canadians per year have been drawing U.I. benefits and that the program has been subjected to successive changes that have whittled away at its capacity to replace employment earnings. Underlying both of these facts is the dramatic increase in the rate of unemployment over the past decade and a half. As we will discuss more fully below (Section 3.5) the 1971 financing arrangements and rising unemployment put increasing fiscal pressure on the Government of Canada which was reflected in the whittling process referred to above. For current purposes a more basic point needs to be made.

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Over the period since 1975, the Government of Canada has virtually abandoned full employment as a priority commitment. Fiscal policy has been hamstrung by a commitment to limit the rate of growth in government expenditure to the rate of growth in the economy as a whole, and this policy of expenditure restraint is being pursued with a vengeance by the new government. As a tool for achieving full employment, monetary policy was totally abandoned at the same time thanks to the monetarist vision of the Governor of the Bank of Canada. Indeed monetary policy has been one of the chief causes of unemployment thanks to the high interest rates to which it has given rise. The grim harvest of these policies has been reaped in the form of excessive rates of unemployment and a fiscal crisis in the Government of Canada. To respond to this situation, as the government has, by whittling away at U.I., is a classic case of making the victims of unemployment pay for their government sponsored misfortune. Needless to say, further cutbacks in U.I. to reduce the overall cost of the program, would be an even more grotesque version of the same process. There is only one reasonable way to come to grips with the number of people drawing U.I. and the overall cost of the program. That is to reaffirm full employment as the first priority of economic policy.

Aside from the overall direction of change introduced through the post-1971 amendments to U.I., they are noteworthy for two other reasons as well. First of all they conflict with certain principles that should be brought to bear on the design of any social insurance program. In this regard, we would note first of all, that stability is a virtue that should be sought in the operation of social insurance programs as it enhances the security of the benefits promised by a program. Constant changes to a program undermine the confidence that workers should be able to have that benefits will be paid when they are needed. The successive changes to the program since 1971, have also undermined the principle that benefits are paid as a matter of right to people who meet minimum qualifying conditions. In this regard we are particularly disturbed by the fact that the legislative changes to the program since 1971, have all been preceded by well-orchestrated government media campaigns that draw

attention to U.I. "cheaters" in spite of the fact that "cheaters" represent a miniscule fraction of U.I. claimants. Finally, to the extent possible, social insurance programs should be simple in design. Unfortunately, the post-1971 amendments have all had the effect of making the program more complicated so that it is increasingly difficult for workers and employers -- not to mention CEIC staff -- to understand people's rights and obligations under the program. The changes to the treatment of separation payments and pension income are a classic case in point.

The post-1971 amendments are also noteworthy because they have been introduced in the face of workers opposition. This is a very important point. The U.I. program is designed with the specific purpose of providing income security to workers in the event of unemployment and workers will bear the lion's share of U.I. costs. Workers pay for the program in two ways. First they pay their own premiums, and second they will normally have to accept lower wages and salaries in light of employer premiums. Thus, from our point of view, U.I. is a workers program. Yet the post-1971 amendments have been prompted by political and fiscal considerations that have shown no regard for workers' interests. We find this a totally unsatisfactory state of affairs.

Not only has there been a tendency to whittle away at the capacity of the U.I. program to replace earnings in recent years, but there has been a parallel tendency to discuss the program as if it should be able to resolve a whole host of problems in addition to replacing earnings in the event of unemployment. Recent commentaries on the program have implied that it should be able to eliminate poverty, redistribute income from people with high earnings to those with low earnings, reduce the incidence of layoffs, reduce the level of unemployment, address the mobility and training needs of the Canadian labour force, and on and on the list could go. In our view, many of these suggestions are examples of unrealistic expectations of U.I. The U.I. program has one fundamental purpose which is of vital importance to workers -- namely to replace earnings in the event of unemployment. While U.I. may contribute to the

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other objectives noted, the other objectives are secondary and the program should not be altered in a way that compromises the fundamental purpose of the program in order to serve secondary purposes.

To some extent these unrealistic expectations of U.I. are already embodied in the U.I. program in the form of both the "developmental uses" of U.I. and the special tax on the U.I. benefits of people with high incomes. Moreover, even the terms of reference of the Commission of Inquiry border on providing an example of unrealistic expectations. The participation guide issued by the Commission says that its main responsibilities will be to:

> ... analyze the role of the Unemployment Insurance program,
>
> - as a means of improving the operation of labour markets in Canada,
> - to more effectively support Canada's economic development,
> - as an equitable financing partnership of business, labour and government (the Unemployment Insurance Account), and
> - to provide new and better opportunities for Canadians experiencing temporary unemployment.

While these are interesting questions to ask about the U.I. program, there is a glaring lack of focus on the role of the program in providing income protection in the event of unemployment. We would hope that this focus will not be absent from the Commission's recommendations.

In assessing U.I. in the mid-1980's we are struck, first of all, by the fact that the fundamental characteristics of the program are appropriate. The unemployment crisis of the last several years has served to reinforce the critical importance of a program that replaces earnings as a matter of right during periods of unemployment. Indeed, given the magnitude of Canada's unemployment in recent years, U.I. has

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amply proven its worth. Not only have 3 million Canadians per year received the essential income protection that U.I. is designated to provide, but it has protected whole communities from economic devastation. Thus we believe that U.I. is a fundamentally sound program; we do not need to go "Back to the drawing board."

On the other hand, we know that the capacity of the program to replace earnings has been weakened since 1971 with the lengthening of the entrance requirement and the lowering of the benefit rate. We know, in addition, that for every two U.I. claims that are allowed, there is one disqualification or disentitlement. In addition, the program has become extremely complicated thanks to new features of the program such as: the variable entrance requirement, different entrance requirements for different types of benefits and different classes of claimants, the treatment of separation payment and pension income as earnings, and so on. The increasingly complicated nature of the U.I. program and the fact that the rights and obligations of claimants are not always fully explained has created two types of problems. First, the principle that benefits will be paid as a matter of right is being undermined and second, a massive backlog of appeals is being generated and in some cases it is taking more than a year to get appeals heard by an Umpire. In addition, we know that there is an increasing number of Canadians who are engaged in paid employment on a part-time basis and that current rules governing minimum weekly hours and earnings are excluding many of these people from U.I. coverage. Furthermore, we note that there is also an increasing number of single parents and situations in which both parents of children are engaged in paid employment and that U.I. does not currently provide adequate income protection to people in the event of earnings loss due to child bearing and the care of infants.

In view of these considerations we believe that we are dealing with a U.I. program that is sound in terms of its fundamental characteristics. At the same time we believe that the program is in need of improvements that will:

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- increase the capacity of the program to replace earnings in the event of unemployment;
- make the program more sensitive to the increasing number of part-time workers and parents in the paid labour force;
- remove unnecessary complications from the program;
- reflect the principle that benefits are paid as a matter of right to people who meet minimum qualifying conditions;
- resolve certain equity issues to which the program gives rise;
- recognize that U.I. is fundamentally a workers-program.

These issues are addressed in Section 3 below.

We recognize that this approach to the U.I. program is less dramatic than going "back to the drawing board". However, this is also the approach that will best serve the interests of the workers that the program is designed to serve.

SECTION 2: RECENT CHALLENGES TO THE U.I. PROGRAM

In Sections 1 and 3 of this submission we discuss some of the recent political challenges to the U.I. program. In this Section we will look at some of the basic concepts that have been utilized to justify these political challenges to U.I. and we will respond to them.

In this regard we see U.I. being challenged on the grounds that it does too little for those "in need" and/or that it pays benefits to those who are not truly "in need". In short, there is a social policy critique of U.I. At the same time there is a labour market critique of U.I. that has two distinct dimensions to it. In the first place U.I. is criticized for having perverse impacts on the labour market and the rate of unemployment. In the second place it is suggested that U.I. should be redesigned to resolve a wide range of labour market problems such as: providing necessary skill training, reducing the incidence of layoffs, creating jobs, etc.

Before turning to these challenges we will summarize our views on the fundamental characteristics of U.I. that make it a vital source of income security in the event of unemployment. We have chosen this point of departure because the challenges to U.I. often reflect a partial or total rejection of these fundamental characteristics.

This section will conclude with a discussion of programs that are necessary complements to U.I. in that they must handle problems that cannot be addressed by U.I. alone.

Section 2.1: Fundamental Characteristics of U.I.

Despite the changes that have taken place in the structure of the Canadian economy and Canadian labour markets in recent years, certain basic things remain unchanged. Wages and salaries remain the most important source of income for Canadians and wage and salary income remains vulnerable to interruption due to unemployment. In the absence of non-market mechanisms

for allocating income, the interruption of earnings that comes with unemployment would have a devastating effect on the living standards of unemployed workers.

In the abstract, there are any number of non-market mechanisms that could be used to provide incomes to the unemployed. In context, however, there are four characteristics of U.I. that we view as fundamental to serving this purpose:

1) it limits the risk of earnings loss due to unemployment;
2) it pools the risk of unemployment among virtually all employed persons;
3) its benefits are earnings related;
4) benefits are paid as a matter of right to people who meet minimum qualifying conditions.

Each of these characteristics is important in its own right and the combination of them in U.I. underlies our strong support for the program. Despite the familiarity of these characteristics to Commissioners, we will comment briefly on them.

Canada's recent experience with unemployment has certainly highlighted both the vulnerability of earnings to interruption and the role of U.I. in limiting that risk. Indeed the 3 million Canadians who have received U.I. benefits each year since 1983 are the equivalent of 30 per cent of average levels of employment during that time. Despite the obvious nature of U.I. in limiting the risk of earnings loss due to unemployment in the recent past, two points are worth adding.

Periods of high unemployment, such as the period we are currently going through, draw attention to the pervasiveness of the risk of earnings loss due to unemployment. Nonetheless, the point should not be lost that in a mixed market economy like Canada's, the risk is always present; all that varies is the pervasiveness and immediacy of the risk.

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Even in periods of low unemployment, the consequences of being unemployed are no less real and potentially devastating. The other point worth mentioning is that while the importance of limiting the risk of earnings loss is most evident for those who are experiencing a loss of earnings, it is also important for those who are employed. The income security provided by U.I. allows employed workers to consume more of what they earn and hence enjoy a higher standard of living than would be the case if they had to hedge their consumption patterns against the risk of unemployment. In a wider sense, the presence of U.I. reduces the risks of industrial adjustment which is also a permanent feature of mixed market economies.

The importance of pooling the risk of unemployment among virtually all employed workers is one feature of U.I. that has been demonstrated with particular clarity in recent years. Not only has the number of people experiencing unemployment grown dramatically, but there have been significant and unanticipated changes in the groups experiencing unemployment. At the beginning of the decade, the CEIC Task Force on U.I. predicted declining rates of unemployment nationally -- especially after 1982 -- and strong employment growth in goods producing industries. It also predicted particularly strong employment growth in Alberta that would be driven by the mega projects in the energy sector which were planned at the time. With the benefit of hindsight we can see that not only was the global prediction about unemployment wrong, but so were the regional and sector predictions. Indeed, groups of workers who were previously viewed as being immune from unemployment are now experiencing both temporary and permanent separations from employment; school teachers and public employees are important cases in point. With the federal government now contemplating policies with major implications for the structure of the Canadian economy such as: free trade, deregulation and privatization -- it is increasingly difficult to foresee patterns of employment and unemployment.

If we have learned nothing else from our recent economic experience, we ought to have learned that over any but the shortest periods of time, the risk of earnings loss due to unemployment is virtually a universal risk for workers. The U.I. program must match the breadth of

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this risk, not only to provide income security to all workers who need it, but also to insure that all prospective beneficiaries of that security share in covering its cost. Given the high degree of geographic mobility of Canadian workers, it is very important that this pooling take place on a national basis.

It was acknowledged above, that in the abstract, any number of non-market mechanisms could be devised to provide income to unemployed workers. The fact that U.I. does so on an earnings related basis is an important and positive feature of the program for two reasons. First, it is only earned income that is vulnerable to disruption due to unemployment. Second, the risk that is involved in the interruption of earnings is not simply the risk for falling below a minimum income standard that is required to live a decent life. What is at risk is the standard of living that a worker has established -- as well as the financial obligations that a worker has undertaken -- on the basis of her or his earned income. In an economy with significant earnings differentials, the earnings related nature of U.I. benefits is designed quite specifically to allow workers to enjoy a portion of the earnings and hence standard of living that they enjoyed prior to the event of unemployment. The differences in U.I. benefits paid to people with different levels of earnings is reflected quite properly, by differences in the amount of premiums paid while employed.

Finally, the fact that U.I. benefits are paid as a matter of right to people who meet minimum qualifying conditions is essential to preserving the personal dignity of people who claim U.I. benefits. It is, in our view, a perfectly appropriate reflection of the fact that workers, neither individually nor collectively, are responsible for the risk of earnings loss due to unemployment.

Section 2.2: The Social Policy Critique of U.I.

Underlying the social policy critique of U.I. is a refusal to distinguish between:

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a) social insurance programs, such as U.I., the Canada Pension Plan and Workers Compensation which are designed to replace earnings in the event of contingencies such as unemployment, retirement and industrial accident; and

b) minimum income programs such as social assistance, the Guaranteed Income Supplement, and a guaranteed annual income which are designed to protect people against absolute deprivation.

These types of programs differ in several important respects. Social insurance replaces earnings; benefits are typically paid as a matter of right in response to certain contingent events; the programs are designed for people who rely on income from employment; and the programs are not designed to redistribute income from people with high incomes and earnings to people with low income and earnings. By contrast, minimum income programs are designed to provide minimum incomes; they are designed to serve all people or specific groups who are "in need"; the receipt of benefits is typically contingent on passing an income, means or needs test; and, the redistribution of income from people with high incomes and earnings to people with low incomes and earnings is commonly an objective of such programs.

The refusal to keep the distinction between these two types of programs firmly in mind has led to criticisms of U.I. that simply fail to take account of what the program is designed to do. Any number of examples of this tendency could be found. However, the following quotation is instructive:

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> "The inequities of the current U.I. system do not arise because unemployment insurance beneficiaries are particularly well off as individuals ... Inequities in benefits received arise because many of the poorest Canadian families are poor precisely because they are too old, infirm or burdened with child care responsibilities to participate in the labour force enough to claim U.I. benefits and because better-off Canadian families owe much of their higher family incomes to the contributions of "secondary earners", who acquire such entitlements. On a net basis across families, the unemployment insurance system is redistributive, if one assumes its deficit to be financed from the federal income tax ..." (emphasis in original) (L. Osberg, "Unemployment Insurance in Canada: A Review of Recent Amendments", Canadian Public Policy, Vol. 2, Spring 1979, pp. 224-225)

Clearly this "critique" of U.I. is preoccupied with issues of income redistribution and absolute need among groups with no labour force attachment. While the issues raised by the author are important, they are largely irrelevant to a critique of U.I. The U.I. program is designed to provide workers with earnings related benefits in the event of unemployment, it is not designed to provide all Canadians with a minimum level of income; nor is U.I. designed to redistribute incomes on a vertical basis.

One element in the above quotation deserves particular attention, and that is the reference to "secondary earners". In some quarters the point has been made that because an increasing number of Canadian households include more than one earner, therefore the financial impact of an individual becoming unemployed is a less severe problem than it was in previous eras. Indeed, the participation guide issued by the Commission of Inquiry asks whether this isn't the case.

It may be true that multiple earner families are somewhat less vulnerable to absolute deprivation if one family earner becomes unemployed. However, the risk associated with unemployment is not simply the risk of deprivation in an absolute sense, it is the risk of losing the standard of living that has been established on the basis of pre-unemployment earnings. This risk remains unaltered no matter how many earners there are in a family. Moreover, as a basis for making prescriptions about U.I., the idea that the existence of "secondary earners" reduces the need to be concerned about unemployment is full of perverse implications.

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It clearly suggests that "secondary earners" are -- in some sense -- less valid participants in the paid labour force and this notion cannot help but be directed against married women who choose to become employed. In a wider sense it suggests that a person's right to enter the labour force should be needs tested. We find these notions totally repugnant.

Not surprisingly, the failure to distinguish clearly between social insurance and minimum income programs in the analysis of U.I. is reflected in an equal lack of clarity when it comes to proposing reforms to U.I. As the program now stands, the only significant minimum income element in U.I. is the special surtax on U.I. benefits received by beneficiaries with high incomes, although the dual benefit structure that existed prior to 1976 also falls into this category. Unfortunately some of the recent proposals for changes to U.I. also reflect this failure to distinguish between social insurance and minimum income programs.

In its submission to the Macdonald Royal Commission on the Economic Union and Development Prospects for Canada, the Canadian Manufacturers Association recommended that U.I. and all other income security programs be replaced by a single guaranteed annual income. The Royal Commission did not accept this proposal in its totality, but it did recommend substantial cutbacks in U.I. and rationalized this proposal, in part, on the basis that it was also recommending the creation of a Universal Income Support Program (U.I.S.P.). Proposals of this sort fail to recognize that social insurance programs and minimum income programs are designed to serve different purposes and they cannot be traded-off one for the other without sacrificing the objectives of one of them. The U.I. program serves an absolutely vital purpose for unemployed workers that cannot be traded off for U.I.S.P. or similar guaranteed income proposals. In saying this we are not denying that there is a need for a guaranteed annual income, we are simply saying that this objective cannot be achieved at the expense of U.I. or other earnings related programs.

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In a related vein, it has also been proposed in recent years that the availability of U.I. benefits should be based on family income levels. Underlying these proposals are concerns about the degree to which unemployment leads to absolute deprivation versus earnings loss, and the degree to which U.I. contributes to redistribution versus the maintenance of living standards. We have indicated above that we view these concerns as being largely beside the point of the U.I. program, and further that these proposals would constitute a totally unacceptable attack on married women. However, two further points are worth adding. The first is that the individual base of the U.I. program is a fitting and proper reflection of the individual basis of employment relationships. It is individuals and not families that get hired and become unemployed. Moreover, the advocates of family based U.I. benefits seem to presume high degrees of family income sharing which may or may not conform with reality. The other more general point to be made is that any attempts to make U.I. a basically redistributive program must be matched by a much higher degree of general government financing. It would be totally inappropriate to try to bring about significant income redistribution while relying largely on a tax base that is as narrow as the U.I. premium base and applying a proportionate tax to it.

Section 2.3: The Labour Market Critique of U.I.

In recent years the U.I. program has also been challenged on the grounds that it has perverse effects on the operation of labour markets. One line of criticism alleges that U.I. reduces the cost of unemployment and, by doing so, encourages people to become or remain unemployed; as a result, it is alleged that U.I. actually increases the rate of unemployment. Another line of criticism suggests that U.I. should be designed to address a range of labour market problems in addition to or instead of, simply providing earnings replacement in the event of unemployment. Each of these challenges to the U.I. program will be looked at in turn.

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The 1971 improvements to the U.I. program attracted a great deal of attention from academic economists. A number of studies were done in the 1970's on the impact of the 1971 U.I. amendments on the measured rate of unemployment. The common conclusion reached was that the 1971 amendments had some effect in increasing the measured rate of unemployment. These studies appeared to confirm the notion that U.I. induced people to become or remain unemployed. They also confirmed the view that was held by some of the people who undertook the studies, that unemployment was largely voluntary. The people who adhered to this view could rationalize that unemployed workers preferred the combination of leisure (i.e. unemployment) and the portion of their employment earnings provided by U.I., to the combination of work and full earnings. Having established to their own satisfaction that unemployment was largely voluntary, these people felt free to ignore (or declare the irrelevance of) the level of total demand for goods and services as a determinant on unemployment.

By the beginning of the 1980's however, a great deal of skepticism had developed about the reliability and continuing applicability of the studies referred to above. In some cases important methodological flaws were found in the work (e.g. ignoring the point that U.I. benefits became taxable in 1971). In other cases it was noted that the negative results that these studies purported to show were offset by the positive impact of U.I. on either or both of aggregate demand in the economy, and improved job search among unemployed workers. Moreover, the relevance of these studies to explaining contemporary unemployment diminished even further in the face of both the cutbacks to the U.I. program in the mid to late 1970's and the growing consensus in the 1980's that the recession was largely policy induced and that most contemporary unemployment stems from a deficiency of aggregate demand.

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In view of the recent commentary on U.I. induced unemployment, it is tempting to dismiss the entire controversy as an episode in intellectual history that can safely be ignored. Unfortunately, however, the evidence from those studies in the mid 1970's was used by the Macdonald Royal Commission to establish part of its rationale for severe cutbacks in the U.I. program. Thus, without feeling obliged to revive this issue in great depth, it does warrant several further comments.

First of all we would point out that the studies on U.I. induced unemployment tended to be preoccupied with influences on the supply side of labour markets in explaining unemployment. In part, this preoccupation reflects the theoretical premise that unemployment is largely voluntary. However, this preoccupation is also partly explained by the fact that data relating to the supply side of labour markets is much more readily available than is data on the demand side of labour markets.

In context then, it is worth noting that one of the more impressive critiques of U.I. induced unemployment is based on surveys of employers and workers in the three Maritime provinces in 1979 and 1981. The surveys permit a matching of data on both the demand and supply side of the regional labour market. Utilizing these data the authors of the study concluded that forces on the demand side of the labour market were far more influential in explaining both the incidence and the duration of unemployment than were supply side factors. Moreover, the ratio of U.I. benefits to earnings was actually negatively related to both the incidence and duration of unemployment. This conclusion certainly does not conform with the unemployment as leisure school of thought and it is particularly pertinent in view of the region on which the analysis was conducted. We would also draw the attention of the Commissioners to a recent study by the Economic Council of Canada (Unemployment, Employment and Non-Participation in Canadian Labour Markets) in which it is argued that recent increases in both the incidence and the duration of unemployment are attributable to a lack of aggregate demand.

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It is also worth noting that the view that unemployment is largely voluntary and induced by U.I. is part of a wider view that if only wages and salaries were more flexible downward, then the supply of and demand for labour would automatically reach equilibrium and unemployment would disappear. Within this wider view, the problem that is attributed to U.I. is that it impedes the downward movement of wages and salaries by providing income levels during unemployment that make low paying jobs unattractive. The adherents to this view thus lump U.I. together with other sources of labour market "rigidities" (e.g. trade unions and labour standards) and argue that these "rigidities" create a base level of unemployment below which increased aggregate demand could not possibly reduce the rate of unemployment without creating an accelerating rate of inflation. (According to the jargon of the day, the base level of unemployment just referred to is called the non-accelerating inflation rate of unemployment or NAIRU.) It follows from this line of reasoning that if only we could remove the "rigidities" including U.I., then the NAIRU and unemployment levels would fall.

It should come as no great surprise to the Commission to learn that we reject both the notion that unemployment is largely voluntary and U.I. induced, and the wider notion that if the so-called "rigidities" in the labour market were eliminated that full employment would follow. We do not wish to dwell on this point of disagreement, but there are several observations that we would like to make.

First of all we would simply make the historical observation that the Canadian economy has operated without U.I. --prior to 1941-- and the other so-called "rigidities" in the labour market. As earlier generations of Canadians learned, the absence of "rigidities" did not result in full employment. This experiment in the unbridled free market ended with the depression of the 1930's. It is also noteworthy that the unemployment as leisure school of thought gained currency in academic circles at the same time that academic economists rejected Keynesianism in favour of monetarism, revived their interest in free trade, and became increasingly vocal critics of government regulation. In short, the unemployment as leisure theory was

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linked to a more general tendency among academic economists to argue against all forms of government intervention and to espouse the virtues of the free market. Again, our historical reminder is pertinent.

Against the background of these remarks it is worth revisiting the comments of the Macdonald Royal Commission on unemployment and U.I. As was noted above, the Royal Commission cited several of the studies done in the mid-1970's which purported to show that the 1971 amendments to U.I. increased the measured rate of unemployment. The context in which these studies are cited is established by the prior claim that labour market policies should be designed to lower the NAIRU which was viewed as excessive at a level of 6.5 to 8 per cent. The Royal Commission also noted that the 1979 changes to the U.I. program should lower the NAIRU.

At first glance this line of reasoning looks straightforward: the Royal Commission is calling for U.I. cutbacks to reduce the NAIRU and the rate of unemployment. However, it is striking that the Royal Commission failed to note the reservations about the studies on U.I. induced unemployment that had begun to emerge by the early 1980's. Nor did the Royal Commission explain why it was only labour market policies that should be designed to reduce the NAIRU. Nor did the Royal Commission explain what reasonable expectations with regard to the level of the NAIRU were in the near future. This last point is particularly important in light of the Royal Commission's claim that "...most of the forces which caused the NAIRU to rise from 1966 to 1977-78 should now be causing it to decline, albeit slowly."

The imprecision of the Royal Commission's rationale for U.I. cutbacks is accentuated by the following comment:

> Commissioners believe that the present unusual extent of unemployment in Canada is caused by insufficient aggregate demand. ...Moreover at the macro-economic level, it [U.I.] can stabilize the economy's consumption by automatically supporting the income of the unemployed during a recession. Although its role in automatic stabilization has been reduced in recent years ... unemployment insurance probably stopped unemployment from reaching an even more dramatic level in the recent severe recession.

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This comment by the Royal Commission is not in total contradiction with the possibility that U.I. induces some unemployment, but it clearly suggests that the degree to which U.I. has this effect must be counterbalanced by the positive impact of U.I. on aggregate demand. Moreover, having acknowledged that increased aggregate demand can reduce unemployment, it is impossible to insist that unemployment is purely voluntary. The availability of jobs in light of prevailing demand conditions is clearly an issue to be reckoned with.

To further confuse the issue, the Royal Commission followed up the passage just quoted by repeating its criticism of U.I. induced unemployment and calling for cutbacks in U.I. But, it says that these recommendations should "...be implemented gradually as the Canadian economy returns to full employment." This qualifying comment is curious because it raises a question about the conviction of the Royal Commission that its U.I. cutbacks will reduce the NAIRU and the rate of unemployment. In other words, if the Commissioners were firm in the conviction that U.I. was propping up the NAIRU and unemployment, the appropriate recommendation would have been to cut back U.I. immediately in order to reduce the rate of unemployment.

The credibility of the Royal Commission's rationale for U.I. cutbacks is delivered a final blow in its comment that:

> The proposed changes to the [U.I.] benefit structure also reflects this Commission's view that the U.I. program has become too large relative to other labour market programs, and that the employment opportunities for Canadians would be improved by switching some funds from U.I. support to programs organized to facilitate adjustment to technological and economic change.

The importance of this comment rests in the fact that the proposed U.I. cutbacks are no longer rationalized as a necessary means of reducing U.I. induced unemployment and the NAIRU. The cutbacks are rationalized on the basis of a pure policy preference. The Royal Commission would prefer to see $4 billion cut from the U.I. expenditure budget so that a comparable amount could be spent on its proposed Transitional Adjustment Assistance

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Program (TAAP). It is also important to note that the Royal Commission is tending to treat U.I. expenditures as part of a total labour market budget which is presumed to be fixed in size. Hence the need to cut U.I. to finance TAAP. The same type of fiscal imperative appears to have guided the recommendations in Unemployment Insurance in the 1980's (see pp. 1-2 of this document).

Because the recommendations of the Macdonald Royal Commission with regard to U.I. attracted widespread publicity, we believe it is important for members of the Commission of Inquiry on Unemployment Insurance to understand that the Royal Commission's recommendations are not built on a solid foundation. The Royal Commission falls well short of the mark in its attempt to invoke the labour market critique of U.I. in order to justify its proposed cutbacks in the program.

In introducing this subsection of our submission we noted that there are two distinct aspects to the labour market critique of U.I. On the one hand it is alleged that U.I. induces people to become or remain unemployed. On the other hand it is argued that U.I. should be addressing a host of labour market problems in addition to or instead of replacing earnings in the event of unemployment.

To some extent, the developmental uses of U.I., that are already embodied in the U.I. program, reflect this second line of criticism. Through the developmental uses of U.I., the program is being asked to help provide training, share the existing stock of jobs more widely, and create jobs. Moreover, the proposal to experience rate U.I. premiums is viewed as a way of reducing the incidence of layoffs. The Macdonald Royal Commission proposals envisage a reduction in earnings related benefits in favour of programs designed to enhance labour force training and mobility. In short, a number of proposals are being made that reflect the idea that U.I. should be modified in order to address a range of labour market problems in addition to providing earnings replacement in the event of unemployment.

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In view of what is said elsewhere in this submission -- particularly in the ensuing subsection on complementary programs -- we will confine ourselves here to some general concerns about this critique of U.I.

The first point we would make is that regardless of what is done through U.I. or other programs with regard to job creation, training, work sharing, etc., workers still need income protection in the event of unemployment and this is the need that U.I. is ideally suited to address. Proposals for the reform of U.I. must be formulated with this objective clearly in mind. Because the need for income protection in the event of unemployment does not disappear with the creation of programs like TAAP, it is not a valid tradeoff to reduce the income protection provided by U.I. in order to finance programs like TAAP.

We are also concerned that some of the labour market initiatives that it has been suggested should be incorporated in U.I., have a potential clientele that includes more than U.I. claimants. Training is an important case in point. It is increasingly recognized that the clientele for training programs should include both employed persons and people who may not have any recent labour force attachment. Thus to the extent that Canada's training efforts are delivered through U.I., these important parts of the clientele for training programs may be left out. On the other hand, if the training component of the U.I. program is extended to include these groups, it is questionable whether U.I. premiums should be used to finance these initiatives.

In a related vein, we are concerned that the U.I. program may not be the most effective mechanism for addressing some labour market problems. For instance, it has been suggested that differential U.I. premiums could be used to reduce the incidence of layoffs. In Section 3.5 of this submission we question whether this objective might not be met more effectively through labour code amendments dealing with matters such as mandatory notice of layoff and severance pay.

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Finally we are deeply troubled by the possibility that part of the attraction in adding training and other elements to the U.I. program may stem from a desire to make sure that U.I. claimants are doing something "productive" with their time. There is a subtext to some of the comments on objectives for U.I. other than providing earnings replacement that smacks of a U.I. version of work for welfare. The following question in the participation guide issued by the Commission of Inquiry provides a case in point: "Should U.I. recipients be asked to work on volunteer or community programs?"

As we noted above, the payment of U.I. benefits as a matter of right is one of the fundamental characteristics of the program. We are strongly opposed to the addition of components to the U.I. program that are designed, in effect, to undermine this principle.

Section 2.4: Complementary Programs

In commenting on some of the substantive challenges with which the U.I. program has been confronted in recent years, the point was made that there are certain valid objectives of public policy for which U.I. should not be expected to provide a partial, yet alone a complete response. Providing a minimum income for all Canadians and/or bringing about a vertical redistribution of income was cited as a case in point. Another case in point was the solution to a range of labour market problems such as providing necessary training to the Canadian labour force and providing disincentives to the use of layoffs. Having acknowledged that U.I. may not be a complete means of addressing a significant range of income security and labour market problems, we will comment on a number of programs that can complement U.I. in meeting public policy objectives that are related to but not identical to those of U.I. (Throughout this discussion we will be making reference to positions of the Canadian Labour Congress on a variety of matters. We would be pleased to provide members of the Commission of Inquiry or other readers with a more complete account of our views on request.)

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In broaching this subject it is important to affirm two points at the outset. The first is that we view unemployment as stemming primarily from a deficiency in aggregate demand. In other words, the demand for goods and services is not sufficient to provide enough jobs for all of those Canadians who would like to be employed. The second and related point we would make is that unless the problem of unemployment is dealt with head on, a significant number of otherwise valid labour market initiatives will be limited in their effectiveness and the demands on income security programs -- including both U.I. and minimum income programs -- will remain at very high levels. In short there is an urgent need to address the problem of insufficient aggregate demand not only because of the enormous costs of unemployment itself, but also to give effect to other programmatic initiatives.

In raising this point, we are well aware of the fact that there is a great deal of controversy surrounding the possibility of deliberately increasing the budgetary deficit in order to increase aggregate demand. Nonetheless we believe that there is still scope for using monetary policy to meet this objective as real interest rates remain at historically high levels. We also believe that there is substantial scope for reorganizing both the tax and expenditure sides of the federal government's budget so that a greater positive impact on employment levels will result. In this regard, we would note that the tax side of the budget has been manipulated on a number of occasions over the past decade to encourage saving versus consumption, and that corporate tax incentives have been focused on capital intensive industries. On the expenditure side of the budget we doubt that the bailout of the Canadian Commercial and Northland banks or increased military spending would have as positive an employment impact as would, for example, a program of municipal infrastructure development such as that put forward by the Federation of Canadian Municipalities. Thus, even if one has ruled out discretionary fiscal policy as a means of creating full employment, there is still a good deal of room to manoeuvre in terms of both monetary and fiscal policy in order to meet this objective.

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At a less global level, it also appears to us that there are initiatives that can and should be taken to address employment problems through the demand rather than the supply side of labour markets. In this regard we are particularly concerned, for example, about the critiques of U.I.'s role in the Atlantic Provinces. The subtext of much of this commentary seems to be that if U.I. was made more difficult to get or its benefits were reduced, then there would be greater pressure on workers to move out of the region and that this would be a good thing. For a variety of social and economic reasons we cannot endorse the view that a wholesale exodus of workers from the Atlantic Provinces is an unqualified good. Indeed, we have profound reservations about the whole idea that the geographic mobility of workers is a virtue. However, the more basic point we would make is that the incidence of unemployment and the frequency of U.I. claims in the region can be addressed through regional development policy which focuses on the demand side of labour markets. In our view this is a more reasonable and humane way to deal with the problem than are attempts to put financial pressure on people to abandon the region.

The one proposal that has been made with regard to U.I. with the intent of influencing the demand side of labour markets is the proposal to experience rate U.I. premiums. The proposal is defended as a means of creating disincentives to the use of layoffs. For a variety of reasons we have rejected this idea (See: Section 3.5). Nonetheless what is appropriate to note here is that the objective is one that we can endorse and that over the years we have proposed labour code amendments that would address the same objective through notice of layoff provisions, severance pay requirements, mandatory joint consultation on the introduction of technological change, and so on.

While the emphasis in our proposals for creating full employment has been placed squarely on the demand side of labour markets, one concept that we have endorsed that bears on the supply side of labour markets is the idea of shorter working time. Shorter working time could be accomplished through a shorter work week, a shorter work year, or a shorter

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work life and there is a vast array of mechanisms that could be used to meet any one of these objectives. In the statutory field alone, the available mechanisms range from labour code provisions governing maximum weekly hours worked, to minimum vacation periods, to the eligibility criteria for public pension benefits.

Although we have not declared that there is a single best method for achieving shorter working time, there are two further points on this subject worth making. The first is that its potential for moving the Canadian economy towards full employment, may be substantial. It has been estimated for example, that a one hour reduction in average weekly hours worked could open up as many as half a million jobs. The other point worth making is that industrialized countries in Europe have used statutory devices much more aggressively than we have in Canada to bring about shorter working time. Many already have statutory annual vacations of four to six weeks together with paid leaves for training, sickness, parenting and other purposes. Earlier retirement with full pension benefits is also becoming widespread practice in Europe.

As was noted above, the importance in addressing the problem of unemployment rests not only in the enormous costs of unemployment itself, but also in the fact that relatively full employment is a necessary condition for the effectiveness of other labour market initiatives. In this regard we are particularly concerned about the limited effectiveness of training programs and programs to facilitate labour mobility in a period of high unemployment.

We have long supported training programs to meet skill shortages in the Canadian economy. Over and above the fact that these programs have positive effects on the efficiency of the whole economy, they provide workers with the chance to take advantage of employment opportunities that would otherwise be closed to them. We have also viewed training programs as a way of providing more equal access to jobs for groups in our society that have been disadvantaged in the labour market. For example, we have

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viewed training programs as an essential element in affirmative action programs for women and other groups such as the disabled and native Canadians.

At the best of times, Canada's training efforts have been plagued with problems such as: the lack of personnel planning by employers, the refusal of employers to hire through CEC's, the ready access that employers have had to skilled labour in other countries, not to mention jurisdictional problems among Canadian governments and the insensitivity of some government initiatives to local labour market conditions. The net result of these problems has been the lack of a clear perspective on future work force requirements; underfunding of training -- particularly in the private sector; and, a lack of success in placing trainees in employment.

Given the prevailing high rates of unemployment, training efforts run into a more profound problem: the lack of available jobs for those who undertake training. This reality not only raises questions about the payoff for the resources that are devoted to training, but it also has the potential to breed cynicism and despair among people who commit the time, energy and money to undertake training.

As awkward as the current situation is, we are certainly not suggesting that current training efforts should be abandoned -- particularly those that are directed at equalizing opportunities in the labour market. Indeed, the recent recession has focused attention on the special training and adjustment problems of both very young and older members of the paid labour force. However, what we are saying is that the effectiveness of our training efforts will be severely limited as long as high rates of unemployment persist. We have to face the very real prospect that whatever success is achieved in placing individual trainees in employment will be matched by someone else losing a job.

As was noted above, the absence of full employment not only limits the effectiveness of various labour market initiatives, it also

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increases the demands on the income security system. High rates of unemployment have increased the demands on both the U.I. program and social assistance and, as we have argued, the only reasonable way to contain the scope of the expenditures in these areas is to return to full employment.

Having said that, there is one further point we would make. We have argued above (Section 3.2) that minimum income programs, like a guaranteed annual income, are not a valid substitute for earnings related programs like U.I. On this point we are absolutely firm. However, this is not to say that a G.A.I. has no place in Canada's income security system. Our comments on the relationship between U.I. and G.A.I. focus on one of the two sets of conceptual issues that have to be addressed if one broaches the subject of a G.A.I.: namely, where does the G.A.I. fit into the whole system of income security and how should it interact with other components of the system. The other set of conceptual issues relates to the design of the G.A.I. itself: for instance, what will the guaranteed income level be; will it be delivered wholly or partly through a non-income-tested mechanism; to the extent that it's income-tested, what will the tax back rate be under the G.A.I. and how will the G.A.I. tax back interact with the personal income tax. In Canada, there is also the additional issue of federal and provincial jurisdictions.

Elsewhere we have acknowledged that the provision of minimum incomes to Canadians under 65 is the most serious gap in our system of income security (See: Canadian Labour Congress Response to the Standing Committee on Health Welfare and Social Affairs on 'Child and Elderly Benefits Consultation Paper'). Moreover it may be that a G.A.I. is the appropriate response to this situation. To repeat, however, it is no substitute for U.I.

We would also like to draw the attention of the Commission to the fact that older workers often face particular difficulties when they become unemployed. They are more likely to be unemployed for long periods of time than are younger workers and the options of geographic relocation and retraining are less viable than they are for younger workers. As is the

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case with the unemployment problems of workers in all age categories, the problems faced by older workers today are, in part, attributable to the prevailing demand defficient unemployment. Nonetheless, even if this problem were rectified, we would expect that the structural changes to the Canadian economy resulting from forces such as technological change, free trade and deregulation would still create income security and adjustment problems for older workers

Having identified the situation of unemployed older workers as a problem, we must admit, however, that we do not have a definitive solution to it. As far as U.I. is concerned, we do not believe that it would be appropriate to establish special benefit periods or benefit rates based on age. On the other hand, it is appropriate to try to insure that U.I. is compatible with whatever adjustment mechanisms are in place. In context, treating separation payments and pension income as earnings is an example of a perverse interaction between U.I. and other adjustment mechanisms. Regardless of what is done through U.I., it seems clear to us that complementary programs are required. These complementary programs may involve a package of reduced work time, retraining and job search initiatives such as those recommended by the CEIC Advisory Committee in its report "Older Workers: An Imminent Crisis in the Labour Market". It might also be appropriate to extend the income protection that is currently provided through Labour Adjustment Benefits and to introduce more flexibility in the age of eligibility for public pension benefits.

At this point in time it is clear to us that unemployment among older workers does pose both income security and adjustment problems not all of which can be handled by U.I. It is also clear that there are a range of complementary programs that are worth reviewing although we have not -- as we acknowledged above -- resolved what particular package would be most appropriate.

Finally, in closing this subsection, we would draw the Commissioners' attention to the fact that in Section 3.2 we note certain labour code amendments that would reinforce our position on U.I. benefits that are paid in the event that earnings are interrupted by child bearing and the rearing of children in infancy.

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SECTION 3· PROPOSALS FOR IMPROVEMENTS TO THE U.I. PROGRAM

In this section of our submission we will set out a number of proposals to improve the U.I. program under the following headings:

1) Strengthening the Earnings Replacement Role of the U.I. Program

2) Parental Benefits

3) Humanizing the Administration of U.I.

4) U.I. and Labour Disputes

5) Financing U.I.

6) Policy Making with Respect to U.I.

While each of the proposals stands on its own merits, there are several themes that link a number of these proposals that should be identified at the outset. The process of linking these recommendations by theme will also permit us to place priorities on groups of recommendations.

As we have indicated throughout this submission, we believe that the existing U.I. program is fundamentally sound. In itself, this shapes our view of priorities with regard to improvements to the U.I. program. It leads us to place greatest emphasis on humanizing the administration of the existing program and resolving a number of the equity issues that will be raised below, such as those relating to labour disputes and the variable entrance requirement. By the same token we realize that there have been some important changes in labour market participants in recent years and that the U.I. program can and should be readily adapted to address these changes. In this regard we are most acutely conscious of the increasing number of part-time workers in the Canadian economy and the increasing number of single parents and the increasing frequency with which two parents are both engaged in paid employment. Our proposals with

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regard to participation of part-time workers in the U.I. program and parental benefits are designed to address these important changes in the labour market.

In addition, we have indicated above our dissatisfaction with both the frequency of legislative changes to the U.I. program since 1971 and the fact that these changes regularly fly in the face of workers concerns about the U.I. program. Our proposals concerning U.I. policy-making bear on this issue as do our views on U.I. financing.

Finally having seen the whittling away at the capacity of the U.I. program to replace the earnings of workers since 1971, we have made a number of proposals to restore the capacity of the program to provide income security in the event of unemployment. Many of the proposals that are designed to strengthen the earnings replacement role of U.I. are framed with this objective in mind.

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Section 3.1: Strengthening the Earnings Replacement Role of U.I.

As we have pointed out on a number of occasions in this submission the fundamental purpose of the U.I. program is to replace earnings that are lost due to unemployment. We have also noted that the capacity of U.I. to fulfill this objective has been undermined by the post-1971 amendments to the program. A number of these amendments have also had the effect of unnecessarily complicating the program which has made it more difficult for workers to understand their rights and obligations under U.I. In some cases these amendments have introduced inequities among types of claimants that are totally untenable. Thus, in this subsection of our submission, we will make a number of proposals that are designed to eliminate inequities and unnecessary complications in the program, and to strengthen the capacity of U.I. to replace earnings in the event of unemployment. Most of our proposals would simply restore features of the program that have existed in the past.

Before turning to our proposals, we believe it is worthwhile to make some observations on the capacity of U.I. in its current form, to replace earnings in the event of unemployment. We have chosen to do so because much of the popular and academic commentary on U.I. seems to be designed to foster misconceptions about U.I. as it currently exists. For instance, one could easily infer from the public commentary: that U.I. recipients receive princely sums of money from U.I.; that U.I. recipients will exhaust their claims as a matter of course; that there are no "work incentives" built into the program; that a large portion of U.I. claimants are cheaters; and, that the number of U.I. claimants is unnecessarily large. Because these misconceptions appear to have had an impact on public perceptions of U.I., it is important to set the record straight on these matters.

To begin with it is important to note that U.I. benefits amount to only 60 per cent of average insurable earnings. This means that at least forty per cent of a persons earned income will be lost when she or he moves from employment to U.I. Moreover, thanks to the two week waiting period,

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the actual ratio of U.I. benefits to earnings over a given period of unemployment will be lower than 60 per cent. For workers whose actual earnings were above the maximum weekly insurable earnings (MWIE), the replacement ratio will be lower again. Finally, in administering the condition that U.I. claimants accept suitable job offers, CEIC imposes a scale of wage and salary rates that decreases during the claim period. In short, any suggestion that U.I. does not incorporate "incentives to work" betrays an ignorance of the basic design of the program.

Not only are U.I. benefits low by comparison with earnings prior to unemployment, but the actual level of benefits paid is low in an absolute sense. Workers whose insurable earnings equal the MWIE ($460/week in 1985) have earnings that are roughly equivalent to the average wage and salary. On U.I. they would become entitled to $276/week. To put this maximum U.I. benefit payable in perspective, it is substantially less than the average monthly rent payable in Canada in 1985 which was $370 per month. However, the average U.I. benefit paid in the first nine months of 1985 was only $170.00 per week. Thus, the idea that U.I. is sustaining life styles that are opulent is without foundation. While U.I. is not designed to eliminate poverty, it is striking that the average U.I. benefit received for a full year is less than the Statistics Canada poverty line for single persons in all but the smallest Canadian cities.

With regard to the suggestion that too many people are drawing U.I., we have already acknowledged that there is a sense in which this is true. Canada's rate of unemployment is too high and as a result too many Canadian workers are facing a loss of earnings due to unemployment. However, the suggestion that too many people are drawing U.I. often includes the insinuation that U.I. is totally indiscriminate in paying benefits to claimants. In this regard we would remind the Commission that for every two claims paid by U.I., there is one claim that is disallowed or claimant who is disqualified. In addition, there is another category of unemployed persons of indeterminate size that does not file a claim for U.I. because they know the existing rules of the program and they know that they do not meet minimum qualifying conditions. Thus it can hardly be said that U.I.

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is totally indiscriminate in providing benefits to people. Moreover, while it would be rash to insist that all of the unemployed who fail to qualify for U.I. should qualify, it would be equally rash to suggest that none of this very large number of people should qualify.

With regard to the notion that the U.I. program is plagued by a large number of cheaters, it is instructive to note that in 1983-84 only about 3 out of every 100 claimants were penalized under Section 47 of the Act for providing false or misleading information and only about 2 out of every 1,000 claimants are successfully prosecuted for defrauding the program.

During the recession, not only did the rate of unemployment go up, but so did the average duration of unemployment and the incidence of long term unemployment. Thus, if there was ever a time when U.I. claimants should have been expected to exhaust their claims on a routine basis, this would surely have been it. Yet even in 1983, when the unemployment rate peaked at 11.9 per cent, 2 out of 3 U.I. claimants ended their claim without exhausting it.

In dealing with the U.I. program we are not dealing with a program that is indiscriminately paying large amounts of money to undeserving people who will routinely choose to exhaust their U.I. benefits. The U.I. program serves an absolutely vital purpose for Canadian workers in replacing earnings during periods of unemployment. In what follows we will make proposals that will strengthen U.I.'s ability to fulfill this purpose.

The first thing we would propose in this regard is that the November 8, 1984 decision to treat separation payments and pension income as earnings for purposes of determining U.I. benefits be reversed. These payments are plainly and simply not earned income that arises during a period of unemployment and this fact is recognized by the government in its decision not to treat these payments as insurable earnings. If the government is free to treat these sources of non-earned income as earnings, then the field is open to do the same with other sources of non-earned income.

What is involved here is a form of covert income testing which is totally inappropriate in an earnings related program.

We would also point out that the decisions concerning pension income and separation payments will create unnecessary confusion in the administration of the program. Indeed, separation payments were specifically excluded from earnings as recently as 1982 precisely because the attempt to treat them as earnings was causing administrative problems for the Commission, employers and workers. The 1982 decision was made with the blessing of both employers and workers.

The effects of treating separation payments and pension income as earnings will also be perverse in terms of other public policy concerns. The immediate impact of the decisions will be felt most heavily by older workers for whom the adjustments involved in becoming unemployed are most traumatic. Moreover, the decision to treat pension income as earnings will create a major disincentive to older workers to take early retirement which, in turn, will limit job opportunities for younger workers. (In context, it is worth noting that the same problem arises when older workers face a one to six week disqualification for accepting inverse seniority in a layoff situation.) With these concerns in mind, the CEIC Advisory Committee -- which includes business and labour representatives -- recommended that separation payments and pension income not be treated as earnings. This recommendation was included in a report on the situation of older workers that had been requested by the Minister of Employment and Immigration.

In a related vein, we would recommend that the current provision of the U.I. program which excludes persons over 65 from coverage under U.I. be ended. This provision is purely arbitrary and is in conflict with the prohibition of discrimination on the basis of age in Section 15 of the Charter of Rights. If coverage is extended to persons over 65, it would be appropriate to eliminate the lump sum payment that is currently payable at 65.

One of the least satisfactory aspects of the U.I. program is the profusion of entrance requirements that have to be met in order to claim U.I. The uniform eight week entrance requirement for "regular benefits" that was embodied in the 1971 U.I. Act has been replaced by a twenty week entrance requirement for "new entrants" to the labour force

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and "repeaters". For others, the entrance requirement will depend on the rate of unemployment in the CEIC region in which a claim is filed and will vary from 10 to 14 weeks. In addition, a twenty week entrance requirement must be satisfied in order to claim sickness and maternity benefits.

In our view, the distinction between entrance requirements for sickness and maternity benefits on the one hand and regular benefits on the other is a specious distinction in principle. Moreover in the case of maternity benefits, the distinction is blatantly discriminatory against women. This point was noted in "Equality for All" (pp. 13-14), the Report of the Parliamentary Committee on Equality Rights (Boyer Committee). Thus we recommend that the entrance requirement for sickness and maternity benefits be brought into line with those for other benefits.

We further recommend that the current distinctions in entrance requirements based on regional rates of unemployment and class of claimant be ended. The uniform entrance requirement should be no more than the existing minimum entrance requirement of ten weeks for all classes of claimants and we would prefer a return to the eight week entrance requirement.

In making this recommendation we would remind the Commission that the departure from the uniform entrance requirement for regular claimants was driven less by principle than it was by the need to strike a compromise between conflicting positions within the former government. We would also point out that while the lengthening of entrance requirements has been rationalized by a suspect "economic veneer", the amendments to the U.I. Act in the late 1970's were being driven primarily by fiscal problems and a hardening attitude toward workers and the unemployed. Moreover, as a practical matter, the return to a uniform eight week entrance requirement may not be as dramatic a change for the recipients of regular benefits as might appear to be the case. As of October, 1985 only 14 out of 49 U.I. economic regions had entrance requirements of more than 10 weeks and none had an entrance requirement of 14 weeks. At the level of principle, our proposal seeks to do two things:

1) first, to recognize uniformity as a virtue in and of itself; and,

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2) to strike a reasonable compromise between two considerations that are relevant to the operation of U.I. -- namely, that established labour force attachment is an appropriate condition for receiving U.I.; but that the loss of earnings for recent labour force entrants can be just as devastating as it is for people with long term attachments.

In addition to the entrance requirements, there are two other features of the U.I. program that are denying U.I. benefits to people who, in our view, should be eligible to receive them. In this regard, we are particularly concerned about the impact on part-time workers of the "minimum insurability" criteria that are currently built into the program, and the special regulations that apply to farm workers.

Currently, a worker must work for an employer for at least fifteen hours a week or must earn at least 20 per cent of the maximum weekly insurable earnings ($92 in 1985) to be insurable under U.I. With the increasing number of part-time workers in the Canadian labour force, more and more workers are being denied coverage as a result of these minimum insurability criteria.

Using 1981 data, the Commission of Inquiry into Part Time Work found that 40 per cent of part-time workers were excluded from U.I. coverage by virtue of the fact that they work less than 15 hours per week. By 1984, the comparable figure had increased to 44.2 per cent, or 747,000 out of a part-time work force of 1,689,000. Since 70 per cent of part-time workers are women, it is clear that the burden of this exclusion falls disproportionately on women.

We are increasingly concerned about this exclusion and its impact on women. We believe that "minimum insurability" criteria should be dropped from the Act and we would draw the Commission's attention to the fact that the Boyer Committee also identified the "minimum insurability" criteria as a feature of the plan that needed alteration in light of Section 15 of the Charter.

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In addition to the normal eligibility criteria that otherwise apply, farm workers must work at least seven days for the same employer before their employment becomes insurable. The government has sought to justify this discriminatory provision as easing the administrative burden on farmers. This rationale cannot justify the imposition of harsher eligibility requirements on farm workers, especially given that they have a particularly strong need for protection in all aspects of their employment, including the unemployment insurance program. Indeed, in a letter to the President of the CLC received in July 1983, the then Minister of Employment and Immigration, the Honourable Lloyd Axworthy, acknowledged that the special eligibility requirement might well be in contravention of Section 15 of the Charter. We believe that this special eligibility requirement that applies only to farm workers should be eliminated.

We also wish to comment on the changes to the U.I. benefit rate that have taken place since 1971. As the Commissioners are aware, the U.I. Act of 1971 included a dual benefit rate: a 75 per cent rate for claimants with dependents, and a 66 2/3 per cent rate for others. In 1976, this dual rate was replaced by a 66 2/3 per cent rate for all claimants. Then, in 1979, this rate was dropped from 66 2/3 per cent to 60 per cent.

In our view it is quite appropriate that there should be a uniform benefit rate for all claimants. The uniform rate accurately reflects the fact that the employment relationship exists between individual workers and their employers, and that it is individual workers who have their earnings interrupted by unemployment. The dual rate reflected an implicit needs testing that has no place in an earnings related program and, nowadays, it would properly be criticized as discrimination on the basis of family status.

We cannot, however, be so charitable with regard to the reduction in the benefit rate from 66 2/3 per cent to 60 per cent. Like other post-1971 amendments to U.I. an economic veneer was given to this change. But with the benefit of hindsight, it is clear that the veneer lacked substance. In our view, the whole point of the U.I. program is to minimize

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the impact of a loss of earnings due to unemployment. In saying this we would add further that in resolving disputes over the appropriate benefit rate, the overwhelming burden of proof must lie with those who would reduce the benefit rate in order to protect "work incentives". We know with certainty the good that comes with high benefit rates: a worker's standard of living is more fully maintained in the face of unemployment. It is incumbent on those who would reduce benefit rates to show that some of this good must be sacrificed. In our view this was not done in 1979 and the 66 2/3 per cent benefit rate should be restored.

We would also challenge the special 30 per cent surtax that was imposed in 1979 on U.I. benefits received by people whose net incomes exceed 1.5 times the maximum yearly insurable earnings. This special surtax is incompatible with the operation of an earnings related program. It would appear to reflect one of the misconceptions as to the purpose of U.I. noted in Section 2 -- namely that U.I. is designed to redistribute income from high earners to low earners and/or provide only minimum income guarantee. This is not the purpose of the program. Moreover, the surtax is also inequitable as tax policy since it imposes special tax obligations on some people with a given level of income and not on others with the same income. The special surtax on U.I. benefits received by people with incomes above 1.5 times maximum yearly insurable earnings should be eliminated.

Finally, one of the themes that has run throughout this submission is that the U.I. program has withstood Canada's unemployment crisis remarkably well in view of the magnitude of the crisis. However, during the depths of the recession when it became incredibly difficult to find work, it became painfully obvious that unemployed workers could not draw U.I. for long enough to maintain them between jobs. Thus, in the fall of 1982, CEIC estimated that the number of U.I. exhaustees could more than double from a level of 35,000 - 40,000 per month "in recent years", to 70,000 to 90,000 in the second quarter of 1983. For us, this

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experience has established the necessity to incorporate into the U.I. program a mechanism for extending the period of U.I. claims during periods of high national rates of unemployment.

In raising this point we recognize that there are any number of ways that claims could be extended and that each would have its own specific effect on whose claims would be extended and whose would not. The threshold level of unemployment that would trigger an extension of claims would also have to be determined. Despite these unresolved difficulties, the phenomenal number of exhaustees during the depths of the recession will not allow us to ignore the need for benefit extensions when unemployment rates are high.

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Section 3.2: Parental Benefits

One of the most disheartening aspects of the discussions of the U.I. program in recent months is that surrounding what have come to be known as maternity benefits. In some quarters these are being described as "social benefits" and the claim is being made that they do not belong in the U.I. program. We are in fundamental disagreement with this basic approach to the question.

In recent decades Canadian women have entered the paid labour force in increasing numbers; more than five million women were members of the paid labour force by 1984, and this amounted to more than 53 per cent of women in Canada over the age of 15. Moreover in recent years the most rapid increase in the labour force participation of women has been by women in the 25 to 34 year old age range which are prime child bearing years.

When women do enter the paid labour force, they do so for precisely the same reason that men do; they want/need income from employment. Moreover, when that earned income is interrupted due to child bearing and child rearing, the consequence is no different than if earnings had been interrupted due to layoff or termination of employment, and neither is the need for earnings related benefits that are paid as a matter of right. In short, there can be no question in our view that women who leave the paid labour force to bear children and parents who leave the labour force to care for children in their infancy should be entitled to U.I. benefits.

We would also recommend an increase in the duration of benefits paid when earnings are interrupted due to child bearing and child rearing during infancy. Specifically we would recommend that the fifteen week benefit period available to natural mothers be extended to seventeen weeks by dropping the two week waiting period and that this seventeen week period be followed by twenty-six weeks of benefits to be made available to either natural parent or to an adoptive parent. A similar proposal regarding the duration of U.I. benefits paid when earnings are interrupted due to child bearing and child rearing was made by the Boyer Committee. Moreover, the duration of these

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benefits should not be limited by the establishment of other claims under the U.I. program, nor should they be denied under Section 44 of the Act by virtue of a labour dispute.

These proposals represent a marked departure from both the status quo and what is being proposed in some quarters. However, we cannot be too emphatic on two fundamental points:

1) parental benefits belong in the U.I. program because the loss of earnings due to child bearing and child care during infancy is no different in its effects than the loss of earnings due to layoff and termination of employment;

2) the increasing number of mothers in the paid labour force and the slowly increasing role of fathers in providing child care are facts of life that can and should be taken into account in the design of the U.I. program.

Indeed our proposals regarding parental benefits under U.I. should be reinforced by provisions in all labour codes in Canada that would require:

. seventeen weeks of maternity leave and an additional twenty-six weeks of parental leave as is now the case under the Canada Labour Code;

. making parental leave available to adoptive parents;

. the accumulation of seniority and benefits during maternity and parental leave; and,

. the right to return to one's former job or its equivalent following maternity or parental leave.

If our proposals were adopted, the basic 66 2/3 per cent U.I. benefit rate would be available if earnings are interrupted due to child bearing and child rearing for a significantly extended period of time. In and of themselves, these changes would mark significant progress in accommodating the income security needs of parents in a manner that is

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perfectly consistent with the purpose of U.I. By the same token, it is important to note that what we are proposing falls short of what is provided in some other industrialized countries and what is "ideal". In principle we would argue that an interruption of earnings due to child bearing and child rearing should entail no loss of available income. This would imply an income of roughly 95 per cent of earnings. We recognize, however, that incorporating a 95 per cent benefit rate into the U.I. program for a particular class of claimant would create equity problems of its own. On the other hand it could be argued that a higher benefit rate in the event of child bearing and child rearing is justified by the comparative irrelevance of work disincentives when earnings are interrupted due to child bearing and child rearing. In light of these conflicting considerations, we are no less committed to the principle of universal fully paid parental leave, but we are willing to acknowledge that the role of U.I. in fully meeting this objective is open to question. In any event, in the context of the current political reality, the most important point to establish is that it is appropriate to pay U.I. benefits in the event of interruptions of earnings due to child bearing and child rearing.

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Section 3.3: Humanizing the Administration of U.I.

One of the features of the U.I. program that we have frequently referred to as being important to us is the fact that benefits are paid as a matter of right to people who meet minimum qualifying conditions. The provision of income security as a matter of right protects the dignity of individual unemployed workers during, what can be, a traumatic experience. For individual workers it is also a reasonable quid pro quo for their having supported others with their earlier U.I. premiums. It is also an appropriate way to recognize that under our economic system some degree of unemployment is inevitable and that workers cannot be held responsible -- either individually or collectively -- for this fact of life.

In a strictly formal or legal sense, the U.I. program is providing benefits as a matter of right to people who meet minimum qualifying conditions. However, our experience with U.I. in recent years indicates that the sense of security and the preservation of dignity that should go along with that, can be undermined in a variety of ways. For instance, the constant revisions to the "rules of the game" since 1971 and the tendency for rule changes to reduce benefits have created the impression that there is something wrong with U.I. and its benefit claimants. The Hon. Bryce Mackasey acknowledged in the House of Commons that this impression has been deliberately fostered by the government which has run well orchestrated media campaigns that characterize claimants as cheaters just prior to introducing these changes. The decision by the current government in November 1984 to hire an additional 700 benefit control officers "to intensify the claimant interview process" is perpetuating this tradition.

In addition, as we have noted throughout this submission, recent changes to the U.I. program have added to the complexity of the program. This has undermined the ability of workers to know exactly what their rights and obligations are under U.I.

But, even looking beyond the formal provisions of the U.I. program and the changes to them, there are a number of features of the administration of the program that can undermine the notion that U.I. benefits are paid as

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a matter of right. In this regard, current problems include the following:

- lengthy delays in processing regular claims, as long as 6-8 weeks in some areas;
- bottlenecks in the appeals system, resulting in delays of one year or more in having appeals heard at the Umpire level and in some cases a further six month delay in having a decision rendered;
- a lack of co-ordination between U.I. and the employment placement services of CEC;
- front-line positions in U.I. offices are often understaffed, and the employees receive little training in dealing with the public;
- the decision not to fund Unemployment Help Centres beyond June, 1985 has left a huge gap in services available to U.I. recipients.

The idea that U.I. benefits are paid as a matter of right must be more than a purely legal fact. This legal fact must be reinforced by an administration that is accessible, efficient and compassionate in all its dealings with claimants and public. With this in mind, we would propose the following improvements to the administration of U.I.:

1. The proposed administrative crackdown announced in November 1984 should be publicly rejected.
2. Targets should be established for processing of new claims, with adequate staffing to ensure they are met. We suggest that a maximum three-week turnaround time is appropriate.
3. Bottlenecks in the appeals system at the umpire's level must be resolved. We endorse the proposal of the Law Reform Commission that the U.I. Act should require Umpires' decisions to be rendered within ninety days of an appeal. In order to meet this objective it may be necessary to assign three Federal Court judges to hear nothing but U.I. appeals or to create a special tribunal for that purpose.
4. Employers should be required to register all job vacancies with their local CEC, as rcommended by the Law Reform Commission in its 1977 study.

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5. Workers should be informed in writing of their rights and obligations when they file a claim in all instances. An emphasis is needed on providing multi-lingual services.

6. Funding should be provided on an ongoing basis for Unemployment Help Centres. These centres provide a valuable advocate role on behalf of claimants, and this should be recognized.

Section 3.4: U.I. and Labour Disputes

Section 44 of the U.I. Act denies benefits to workers whose earnings are interrupted due to stoppage of work that is attributable to a labour dispute. The intent of this section of the Act is to ensure that the U.I. program and CEIC are neutral in labour disputes, and we have accepted this basic principle of neutrality. Over the years, however, the jurisprudence that has developed on this section of the Act and certain administrative practices of the Commission have allowed benefits to be denied to people to whom this section should not apply.

One of the problems that has arisen in this area is that definition of the workers involved in a labour dispute has been extended to cover workers who are not direct participants in the dispute and who have no direct interest in it. For instance, there have been cases over the years where laid-off workers have been denied benefits because they were members of the same union as other workers of the same employer who were then on strike, and strike assistance came from a common strike fund. In this case the laid-off workers were deemed to be parties to the dispute on the grounds that they were financing it through their union dues prior to layoff. In a related vein, if an individual worker decides to participate in a labour dispute (e.g. by refusing to report to work for an employer who is being struck) the whole "grade or class" of workers of which that individual is a member can be denied U.I. benefits.

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In our view, these "financing" and "grade or class" rules are inequitable. They stretch Section 44 beyond its original intent and end up biasing the U.I. program in favour of employers. Section 44 should be rewritten to make it clear that the only people who will be denied benefits under this section are people who are direct participants in a stoppage of work or who are covered by a collective agreement that is at issue in the stoppage of work. The definition of a direct participant should not include workers who refuse to cross the picket line of workers who are direct participants in a labour dispute.

The intent of Section 44 is to preclude the payment of benefits to people whose earnings are interrupted because they are participating in a labour dispute. However, it occasionally happens that during the course of a labour dispute, events occur which would give rise to a claim in the absence of the labour dispute. Some of these alternative bases for a claim should be recognized even if a labour dispute is under way. In this regard, three situations are particularly relevant:

1) situations where an employer declares all or part of her or his operations to be wound up during a labour dispute and therefore lays off or terminates the employment of some or all workers at a place of employment;

2) otherwise valid claims arising from child birth and child rearing;

3) otherwise valid claims arising from sickness.

In each of these situations, it is fair to presume that even if there was no labour dispute, the workers involved would not be returning to work. Therefore the interruption of earnings should not be viewed as the result of the labour dispute itself.

We are also concerned about two aspects of the operative definition of a labour dispute for purposes of the U.I. program. First

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of all, the definition of a labour dispute in the Act allows for the denial of benefits in cases where workers have been illegally locked-out by their employer. Since the workers involved have absolutely no control over these situations and illegal lockouts are not part of the legally sanctioned collective bargaining process, Section 44 should not deny benefits to workers who are faced with an illegal lock-out. In addition, jurisprudence has established the operative rule that a labour dispute has ended when 85 per cent of the workers employed at the commencement of the dispute have returned to work. This operating rule has no foundation in the Act or regulations. In our view a dispute should be deemed to be ended when the parties to a dispute have ratified a memorandum of agreement and/or a collective agreement.

Section 3.5: Financing U.I.

No issue has dominated the discussion of U.I. financing to the degree that the respective roles of premium versus consolidated revenue financing has. But, no matter how this issue is resolved, it should also be acknowledged that the total amount of U.I. benefits paid has been an issue in some quarters. In addition, the government has been concerned about the fiscal impact of its share of U.I. costs and this has been one of the things that has prompted amendments to the U.I. Act since 1971.

One way of reacting to the increasing payout of U.I. benefits would be to reduce the amount, duration or availability of U.I. benefits. In our view this would be a grotesque case of making the victims of unemployment pay for their misfortune. We believe that there is only one reasonable way to reduce that amount of U.I. benefits and that is by reducing the level of unemployment in Canada. The amount, duration and availability of U.I. benefits are issues that must be judged in light of the degree of income protection that unemployed workers need in order to maintain a reasonable portion of their standard of living.

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With regard to the proper balance between premium and consolidated revenue financing, we are recommending that the status quo be maintained with one modification. The entire cost of the developmental uses of U.I. should be borne entirely by Consolidated Revenue as should all costs of Canada Employment Centres that are not directly related to the administration of the U.I. program. While this position hardly qualifies as a significant proposal for change, it merits some further comment.

As we have noted throughout this submission, the purpose of the U.I. program is to provide earnings related benefits in the event of unemployment. In recent years we have seen an off-loading on to the program of the "developmental uses" of U.I. and the cost of the CEC's. While there may be administrative efficiency reasons for linking the administration of U.I. to that of other programs, there is no basis for off-loading any of the costs of these other programs on to U.I. premium payers.

For us, then, the issue of the proper balance between premium and C.R.F. financing focuses quite specifically on the most appropriate means of financing earnings related benefits. In this regard we have always been attracted by one of the principles underlying the financing arrangements that were incorporated in the 1971 Act -- namely, that when the national unemployment rate rose above full employment levels, the government would bear the additional costs of U.I. through C.R.F. We have always felt that this was an appropriate manifestation of the government's responsibility to insure that all of those Canadians who wanted to work would find work available. On the other hand, the 1971 arrangements were not totally free of problems from our point of view.

With the benefit of hindsight it is clear the combination of the 1971 financing arrangements and the following two circumstances contributed heavily to post-1971 amendments:

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. rising unemployment; and

. the federal government's commitment to expenditure restraint since 1975.

In context, the federal government's financial commitment to U.I. had to be assessed in light of its overall commitment to expenditure restraint and its other spending priorities.

In addition, the financing of U.I. benefits out of C.R.F. does raise a difficult issue of principle in terms of the allocation of the federal government's social spending budget. It is not easy to determine the appropriate balance between the provision of earnings related benefits for unemployed workers and the provision of minimum incomes to a potentially wider population of people "in need".

Accepting the status quo with regard to the financing of earnings related benefits does not resolve all of the conceptual issues regarding U.I. financing in a precise way. However, it is not a totally unreasonable compromise. There is still an element of federal commitment to support the costs of U.I. that result from high rates of unemployment. At the same time roughly three quarters of program costs are covered by employer and employee premiums. Given that the bulk of the employer premiums will be passed back to workers in the form of lower wages and salaries, the financing of the earnings related benefits is largely a program of income transfers from the employed to the unemployed.

In the recent past, another issue relating to the financing of U.I. has attracted a good deal of attention -- namely the possibility of experience rating U.I. premiums. In principle there are any number of bases on which experience rated premiums could be established. However, our impression is the support for experience rating tends to be focusing on a scheme that would experience rate employer premiums on a firm-by-firm basis with differential premiums being designed to reflect the differential demand for U.I. benefits that are attributable to the current and former employees of each firm.

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There are several reasons why we could not endorse this or any other scheme of experience rating U.I. premiums:

i) there are bound to be perverse feedbacks into the hiring practices of firms as there will be an incentive to hire those people whom employers guess will be most quickly rehired on layoff, termination, etc.; there is bound to be a conflict between experience rating and employment equity concerns;

ii) the reasons for layoffs often have nothing to do with an employer's "free choice" but reflect economic conditions and public policy decisions over which individual employers have no control;

iii) to be fair, experience rating would have to be highly sensitive to changing patterns in the use of the U.I. program; the by-product of a high degree of sensitivity will be high administrative costs to implement experience rating and the prospect of imposing increased premiums in the least desirable context.

Having offered our reasons for opposing experience rating, there is no harm in acknowledging that the intent of the proposal -- which is to penalize firms that use layoffs excessively -- is not offensive in and of itself. The point is that the proposed remedy is worse than the disease. This conclusion was also reached in "Unemployment Insurance in the 1980's".

One further point should be made about penalizing firms that use layoffs excessively. There are methods of addressing this problem that may be far more effective than differential U.I. premiums. For instance, labour codes across the country could be strengthened in terms of their requirements governing such things as: advance notice of layoffs, compensation in lieu of notice, minimum severance benefits, and the requirement to bargain technological change.

Another issue that we would like to raise concerns the tax treatment of U.I. premiums. Currently premiums are treated as tax

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deductable which means that the absolute dollar value of tax savings that will result from this treatment will increase with the taxable income of the tax filer. In our view it would be more equitable to convert the tax deduction for U.I. premiums into a refundable credit and we would note that this can be done on a revenue neutral basis. In addition we would note that while this proposal concerning the tax treatment of U.I. premiums stems from a redistributive concern, this should not be construed as meaning that the program itself should be designed with this concern in mind.

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Section 3.6: Policy Making with Respect to U.I.

Throughout this submission there are several points that have been made in different contexts which bear repeating here in that they shape our view on policy-making with respect to U.I.

. U.I. is fundamentally a workers program in the double sense that it is designed to provide income protection to workers and workers bear the bulk of the program's costs;

. since 1971 the program has been subjected to a series of legislative changes which have undermined both the security of the benefits and the sense of entitlement to benefits as a matter of right; and

. amendments to the program since 1971 have been largely inspired by short term fiscal and political concerns that have tended to fly in the face of workers' interests in income security.

It is an understatement to say that we have found the evolution of the program since 1971 to be unsatisfactory. We resent not only the basic direction of post-1971 amendments but the fact that they have simply been imposed on the contributor/beneficiaries. The November 1984 "administrative changes" to the U.I. program represent the low point in this evolution.

At this stage, we do not have an alternative policy-making structure to propose with regard to the U.I. program. However, we would invite the Commission of Inquiry to review the U.I. policy-making process with three objectives in mind:

- giving recognition to the fact that U.I. is fundamentally a workers' program by enhancing the role of workers representatives in establishing policy with regard to U.I.;

- creating more of an "arm's length" relationship between the government and the ongoing administration of U.I.; and

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- <u>insulating the program against unnecessarily frequent legislative interventions.</u>

In raising this point, we recognize, of course, that Parliament must create the legislative framework within which U.I. must operate. In this regard we are simply suggesting that stability is a virtue. However, with regard to the ongoing administration of U.I., it is possible to have the administration operate at more of an arm's length distance from government than it currently does. While many options are open in this regard, we would remind the Commission of Inquiry that at present CEIC is supposed to operate as a distinct corporate entity. However its independence is extremely limited. The Chairman and Vice-Chairman of the Commission are, respectively, the Deputy Minister and Associate Deputy Minister of the Department of Employment and Immigration. Moreover, the U.I. program is subjected to changes based on Treasury Board's attempts to cut program expenditures. The treatment of separation payments and pension income as earnings are cases in point. Thus, with regard to the possibility of creating more of an arm's length relationship between the government and the ongoing administration of U.I., rather minor modifications to the existing structure of CEIC may be all that is required. However, it is also clear that a review of the financial accountability structure for U.I. expenses must be undertaken if the "arm's length" objective is going to be met.

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SECTION 4: CONCLUDING REMARK

In the preceding section of this submission we have proposed a number of improvements to the U.I. program, many of which are designed to restore provisions of the program as it stood in 1971. While this package of proposals may be viewed in some quarters as lacking innovation, it reflects a firm conviction on our part that U.I. is a fundamentally sound program that is addressing an absolutely vital need of Canadian workers. We do not believe there is a need to go "back to the drawing board" in formulating proposals to change U.I. and we would steadfastly oppose cutbacks to the U.I. program such as those proposed by the Macdonald Royal Commission or those suggested in "A New Direction for Canada".

Despite our general satisfaction with the U.I. program, we have identified a number of issues in Section 3 of this submission which can and should be addressed within the U.I. program. In Section 2.4 we have also identified a number of income security and labour market issues that need to be addressed but which cannot or should not be addressed through U.I. For instance, U.I. cannot and should not be expected to provide a minimum income to all Canadians or to redistribute income from people with high earnings and incomes to those with low earnings and incomes. Nor should U.I. be expected to resolve all of Canada's labour market problems. For us, these points are not indicative of a basic weakness with U.I. rather they are indicative of a need for other programs to complement U.I. which meets a basic need of workers by replacing a portion of their earnings in the event of unemployment.

Regardless of how the Commission of Inquiry treats our proposals concerning U.I. and the other matters raised in Section 2.4, we would hope that the Commission of Inquiry would be very forceful in agreeing with us on one fundamental point: Canada's foremost economic and social problem is unemployment. The costs of unemployment are enormous in terms of: the lost production of goods and services in which it results; its fiscal consequences; the disruption and social problems it causes for individuals, families, and communities; the disillusionment it breeds among both youth and older workers who experience long periods of unemployment; the barriers

it creates for groups who have been traditionally disadvantaged in the labour market. Indeed, even the wildest allegations about the negative effects of U.I. are trivial by comparison with the problem of unemployment.

In U.I. Canadians have a fundamentally sound system of income security for workers who experience unemployment. Canada's real challenge is restoring full employment.

Respectfully submitted on behalf of the

CANADIAN LABOUR CONGRESS

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